Discussion Statement No. 1. June 18, 1934.
Material suggested for use in developing discussion
of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

-----------o-----------

TAKING STOCK OF THE SITUATION

Prepared by the Division of Information,
Agricultural Adjustment Administration

The Agricultural Adjustment Act entitled, "An Act to Relieve the Existing National Economic Emergency by Increasing Agricultural Purchasing Power, etc.," is one of the cornerstones of the National Recovery Program. It seeks to restore to the farmers a purchasing power which will be on a par with the purchasing power which they enjoyed during the five-year period just before the World War. During the period from 1909 to 1914 production was nicely balanced with demand and prices to farmers and consumers were reasonably satisfactory.

The 1909-14 period has been selected as a base period whose stability the Agricultural Adjustment Administration is now attempting to reproduce. The price relationships of these years have been taken as a goal not because farmers were rolling in wealth, even though as we look back upon it, this period may seem like agriculture's golden age. The pre-war farmer would not have been at a loss as to how to spend more ready cash, and pre-war farm homes lacked many modern conveniences that were already common in the city. But most of these farm homes were on the way toward being paid for and farmers in general were free from the gnawing fear of sheriff's sales. They received a reasonable share of manufactured products in exchange for the things they had to sell, and on the whole life held out hope and promise and had the fine rural flavor which only we who have lived in the country know.

Then Came the War

And then came the World War. The balanced condition which agriculture had been enjoying was upset by the same explosion that rocked Europe. The demand for American farm products increased as European nations called their farmers from the fields to the trenches. The American farmer put new acres to the plow. Prices rose--a further incentive to production. Then the entrance of the United States into the war again intensified the demand for farm produce. Following the slogan, "Food Will

Win the War," the farmers did everything possible to increase production. Upwards of 50 million acres of grass and woodland were converted into fields of grain.

Agriculture's heyday, as it turned out, was very short. With 1921 came general deflation. All prices tumbled. The prices of farm products fell faster and farther than the general price level. Farm land values, capitalized on the basis of the prices of 1919, collapsed, and farm land became almost unsalable. Farm mortgages, contracted at the high level, became frozen assets, causing the demise of thousands of rural banks in succeeding years. Millions of farm people migrated to the cities and obtained work in factories and offices.

The situation was made worse by three other developments. About the time that farm prices fell, the railroads were permitted to increase their freight rates. This, while it gave certain advantages to the farmers of the Eastern States, had a strongly adverse effect on the farmers of the West and South. Higher freight rates hit the farmers going and coming. It meant lower prices at the farm for the things they sold and higher prices at the farm for the things they bought. Another development was the motorization of America. With automobiles, trucks, and tractors coming into almost universal use, the number of horses and mules was greatly reduced, and an outlet for the products from approximately 30 million acres of crop land was gone.

Again, the United States emerged from the War as a creditor rather than a debtor nation. Before the War we had owed large debts abroad; we had paid the interest on them chiefly with exports of farm products. After the War we kept on exporting our farm and other products, but we made no conscious adjustment to the change in our status from debtor to creditor nation. We not only maintained, but increased our tariff, and thus prevented foreign nations from paying their debts to us in goods as we had paid ours to them. The same difficulty applied to new purchases by foreign nations. As a result, sales of our farm products were limited. Europe was able to buy our products only with money we advanced in loans. And when, in 1928, we stopped loaning, our foreign markets collapsed.

All these things combined to plunge agriculture into tribulation. The fundamental root of the whole problem was surplus, since the farmers were producing more farm commodities than they could sell at a reasonable price in the markets available to them.

Early Remedies Proved Inadequate

Of course many remedies were suggested. One was cooperative marketing. It was tried on a large scale, but in itself proved inadequate. Tariffs on farm products were increased, but since some of our chief crops such as wheat and cotton were sold on the world market and consequently were sold at world prices rather than domestic prices, protection of them by domestic tariffs was only a futile gesture. Farmers were urged to diversify; this helped individual cases, but did not decrease national overproduction. Farmers were urged to practice more efficient production.

They did so; but instead of producing the same number of bushels of wheat or the same number of bales of cotton more efficiently, they farmed more acres of cotton land more efficiently, increasing production still further beyond the market demand and depressing prices still more.

During the 'twenties, a series of proposals for surplus control attracted widespread attention. The McNary-Haugn plan of "Making the tariff effective on farm products" by means of the equalization fee, received wide support and actually passed Congress twice, but was vetoed each time by President Coolidge. There was also the export debenture plan, which was seriously discussed but not enacted into law.

Finally, at the beginning of the Hoover Administration, in 1929, the Agricultural Marketing Act was passed, establishing the Federal Farm Board. The Board was empowered to meet the surplus problem by stabilizing operations, by holding farm products off the market so as to maintain prices at a satisfactory level. In a period of rising prices, the plan might have operated with a measure of success, but prices fell continually and it was impossible to market the supplies held by the Government except at great loss. Meanwhile, the very presence of huge supplies overhanging the market tended to keep prices down.

The general business depression which began in 1929 and lasted for nearly four years was the last straw for the American farmer. For ten years he had been living mostly out of his capital investment without being able to put anything back into it. He had been unable to keep his buildings painted or his fences repaired; his farm machinery was falling to pieces and he was just able to carry on. Since prices for the things he had to sell remained low, while his fixed charges such as interest and taxes remained high, his only chance was to strain every nerve to grow as many units of his crops as possible. If, because of the low price of cotton, he couldn't pay his bills with 5 bales of cotton, he had to make an effort to grow 10 bales even though all the additional bales he grew were surplus bales which depressed prices further. The only real solution to his difficulty lay in growing less rather than more, but no farmer could afford to do this without assurance that enough of his neighbors would do likewise to permit all of them to gain by doing so.

As his returns fell lower and lower, the farmer practically ceased to be a customer for manufactured goods. He was less and less able to pay his interest. Mortgage foreclosures became frequent. Farm strikes were called. In some places there were foreclosure riots. It became evident that something fundamental had to be done, something that would strike a little deeper than any previous effort. Overproduction was the heart of the problem, and had been for 12 years. But nothing had been done about overproduction.

Adjustment Act a Logical Solution

Looking back over the period I have been describing, it seems as if the logic of events led inevitably to the Agricultural Adjustment Act. Every secretary of Agriculture since the War had pointed to the necessity

of doing something about our surpluses. Secretary Henry C. Wallace, in his report of 1924, issued after his death, declared that "The overproduction which brought about the collapse in farm prices resulted largely from the stimulus of advancing prices and from the response made by the farmer to patriotic appeals for increased production during the War." He had advocated the plan of segregating exportable surpluses from domestic supplies by means of the equalization fee.

Secretary William M. Jardine also recognized the surplus as the central difficulty, though he laid particular emphasis on the effect of seasonal surpluses. In 1925, he wrote: "It is well known that small surpluses exercise a depressing effect on prices altogether disproportionate to their amount.....It is to the interest of the entire community that agriculture should not be periodically depressed by overproduction and low prices." In 1926, he said: "As to the surplus problem, there are two general avenues of approach to its solution. One is through a better adjustment of production to market requirements." And in 1927, he declared: "While farmers themselves are reducing their costs of production through increased efficiency, public agencies should cooperate with them in effecting a better adjustment of production to demand."

But it remained for the operation of the Federal Farm Board to reveal the full extent of the surplus problem. Secretary Arthur M. Hyde, in his 1930 report, wrote: "The current slump in agricultural prices and incomes reflects the combined influence of overproduction in some important farm products and the world-wide business depression. Agricultural overproduction existed before the business depression began-----One aspect of the farm problem overshadows all others. Production.....is out of balance with the market, and surpluses pile up continuously.....Our difficulty is not a sudden emergency, but a cumulative overproduction..... I want to emphasize the need for equitable, intelligent, systematic, and collective action (notice that word, "collective") to bring supply into better relationship with demand . . . The answer to overproduction is less production."

Again in 1931 he referred to the problem. He wrote: "Our agriculture is burdened with surpluses. This has been repeatedly, and, in fact, almost continuously the case since the War.....Concretely, the issue is whether agriculture faces a temporary or permanent change in its general market situation. In either case, changes in its production will be necessary . . . American agriculture must adjust itself to a declining export trade. As things stand, this need will persist, no matter how favorably matters develop in Europe, because our production is overexpanded in relation to Europe's wants . . . This is not a policy of defeatism, a passive acceptance of declining business. It is a policy of constructive adjustment to a radically changing market situation. What counts in agriculture is not primarily the volume, but the profitableness of farm production. It is better to contract the agricultural industry profitably than to overproduce unprofitably."

While agriculture was maintaining its production, or even expanding it, industry had slowed up. Business men saw that there was no use manu-

facturing goods that could not be sold at a reasonable profit. Figures compiled by the Division of Statistical and Historical Research of the Federal Reserve Board show that the index of production for iron and steel fell from 130 in 1929 to 31, or less than one-fourth the 1929 production, in 1932. The index for production of bituminous coal fell during that three years from 102 to 39; for automobiles, from 135 to 35, practically one-fourth of what it had been in 1929. The index of production for boots and shoes for this period fell from 110 to 95, and for textiles from 115 to 53. The combined index for all these products fell from 119 to 63 -- just about half -- during the period from 1929 to 1932.

That is the way industry slowed up production, a process entirely justified considering the fact that these goods could not be sold at a reasonable price.

Meantime, what about agriculture? The combined index for cotton, grain, meat animals, dairy products and poultry products, declined during the same 3-year period from 1929 to 1932, only from 109 to 104, or less than 5 percent.

Farm Produce 50 Percent Below Parity

Agriculture, in effect, was exchanging nearly 100 percent of its normal amount of production for little more than half of the normal amount of manufactured products. This relationship was expressed in corresponding price ratios. By February, 1933, the exchange-value of farm products for industrial goods had fallen to 50 percent of the pre-war average. The exchange value of farm products for taxes and credit was even less.

When President Roosevelt took office March 4, 1933, it was evident that a positive program was needed to curb agricultural overproduction. The Agricultural Adjustment Act, which became effective May 13, 1933, was the answer to the general demand for action to cope with the twin problems of farm surpluses and farm debts.

There were two principal purposes in adopting this plan. One was to give agriculture a square deal. The other was to prime the pump of purchasing power by recreating the farm market. Farmers had ceased to be customers for goods and services provided by the cities; and lack of buying power among city people was a contributing factor in the low prices of farm products--particularly livestock and dairy products and perishable fruits and vegetables. If the farmer could start to buy again, the wheels of industry would begin to turn. The general recovery program aimed to spread purchasing power among both groups.

Right here I would like to say a word about the seeming paradox of the simultaneous existence of surpluses on the farms and bread lines in the cities. Insofar as the people in the cities were actually underfed, this was inexcusable. In the United States, with its rich productivity, every person should have enough to eat of the right kind of food

to maintain health. It was the responsibility of the people at large, acting through the Government, to see that no person should starve. This responsibility was promptly assumed by the Federal Emergency Relief Administration and the Federal Surplus Relief Corporation.

But even though every hungry person in the United States were well-fed, there still remains a surplus due to the loss of our overseas markets. For example, our normal wheat production has been about 800 million bushels a year in the past. Our normal domestic human consumption plus feed and seed is around 600 million bushels. There remains a normal exportable surplus of about 200 million bushels. This would be desirable if we could dispose of that 200 million bushel balance through our foreign markets, but in recent years the world markets have been unable to take this wheat. If they will not take it, what can we do with it? We can't make the people eat 20 percent or 40 percent more bread than they are used to. In the meantime, why should agriculture go on producing for a market which does not exist and which may not exist again for some time to come?

It seems to me we should arrange to have abundance where abundance is needed and can be consumed. It is futile to waste our energy producing something for which there is no effective demand and which must ultimately pile up in warehouses as nearly 400 million bushels of wheat piled up in the United States in the depression years.

Farm Purchasing Power Key to General Prosperity

The important thing to watch is the extent to which farmers are regaining their lost purchasing power. Those of you who are business men are interested in this because you are interested in having bank loans repaid. You are interested in the sound condition of life insurance companies, which have huge amounts invested in farm mortgages that must be repaid. You are interested in the railroads' condition, which depends in great part on the volume of their shipments, including shipments of manufactured goods to the farming regions. You are interested in the continuous operation of city factories, which can not run full time when farmers are unable to buy. You are interested in the business pickup of rural stores, whose counters, until recently, have been almost bare of sales. Those of you who are farmers are interested because your renewed ability to purchase these goods and services from other members of the community is the first step in a return to security and a standard of living in which life will again seem worthwhile.

The assistance offered by the Agricultural Adjustment Administration has been accepted by more than one million cotton farmers, more than 500 thousand wheat farmers, nearly 300 thousand tobacco growers, and one million 200 thousand corn and hog producers. Unable by their own individual efforts to bring production into line with demand, they have eagerly cooperated with the Government to accomplish this. As a consequence of the cotton-reduction program of 1933, the potential gross income of the cotton growers from the 1933 crop, including rental payments and profits on options,

is 857 million dollars, as compared with 425 million dollars, the farm value of the 1932 crop. Gross income from grains, including wheat benefit payments, was close to 700 million dollars in 1933, compared with less than 325 million dollars in 1932. The benefit payments of 28 cents a bushel, added to the average farm price of wheat, are giving cooperating farmers a price within a few cents of the parity price on their farm allotments. Striking gains have been made also in the income of tobacco farmers, as a result of the adjustment program. The estimated total value of the 1933 flue-cured tobacco crop is 115 million dollars, compared with 44 million dollars for the 1932 crop. Growers of other kinds of tobacco are profiting also. Corn-hog farmers are receiving the first installment on their benefit payments, to be made by the Government in consideration of their reduction in corn acreage and hog supplies. The program calls for a maximum total of 350 million dollars in these payments. Government loans on corn also have added to the corn growers' income. Nearly a million growers of rice, walnuts, fruits, and a number of other special crops have been placed in a materially improved position through marketing agreements. As to dairy products, we have not been able to accomplish all that we would like. Problems of this industry are the most complex of those of any branch of agriculture, and conflicting local interests have made it difficult to get general agreement within the industry on any adequate national program.

The Farm Home Endangered

A very important corollary effort of the Government in behalf of agriculture is the work of the Farm Credit Administration, without which a wave of foreclosures might have led to a national calamity. It undoubtedly eased a situation in which thousands of farms were on the verge of passing out of individual ownership into the control of insurance companies, with large-scale corporation farming replacing the individual farm home.

More than one billion, one hundred million dollars has been placed by the Farm Credit Administration in the farming districts in refinancing mortgages and providing other forms of agricultural credit. This action has strengthened the entire credit structure of the nation. Moreover, the more immediate effect of the Farm Credit Administration has been to save the day for agriculture until the Adjustment Administration could get under way with its more slow-moving but more permanent program. Conversely, the adjustment program by increasing farm incomes is now insuring the soundness of the farm credit operations.

In recent months, the combined effects of the credit and adjustment program is being widely felt. The increased income of the farm areas where plans for production control are effectively operating, particularly in the West and South, has already quickened every phase of economic life in those regions. Surveys made by the Agricultural Adjustment Administration have revealed that one of the first concerns of the farmers is to pay their debts and taxes. Bankers are receiving payments on loans they had long ago written off. In buying goods, the farmers are using their money judiciously.

Their first purchases are their most needed articles, such as shoes and clothing, household utensils, furniture, harness, paint, roofing, fencing, farm implements, and, in some cases, automobiles. Since many of these articles are manufactured in the Northern and Eastern States, factories in those sections have derived a substantial increase in the amount of business which has made possible corresponding increases in employment. Even sections where there is relatively little agriculture have been aided materially by the increase in factory pay rolls caused by the farm revival in sections where agricultural adjustment programs are in operation.

Individualism Ceased to Pay Dividends

The nearly three million farmers voluntarily participating in the adjustment plans sponsored by the Government are not complaining about "regimentation". This cry is coming rather from those who, during the years when farmers by the thousand were losing their homes, congratulated them on their rugged individualism, and who now that the farmers have succeeded in retaining their homes, commiserate them on losing their traditional American ways. If you do not believe me, go and talk with farmers in the wheat, corn-hog, tobacco, and cotton regions of the West and the South. To them the Agricultural Adjustment Act, far from being the yoke of a despot, is a recognition of their economic freedom. The operations under the Act are not yet perfect, and here and there are grounds for individual dissatisfaction. But to millions of farmers the Act stands as their economic Bill of Rights. And since they have taken the road that leads to economic equality they are not likely to turn back.

Secretary Wallace has pointed out in his booklet, "America Must Choose", that our course depends a great deal on what we do about our foreign trade. If we can reopen the export markets for our products, our adjustments of production will not have to be nearly so drastic as otherwise. But Europe can not buy from us unless she can also sell to us. The old policy of financing exports by foreign loans could never be anything but temporary, and it is out of the question now. Reciprocal agreements which will assist other countries in finding markets here must be made. That is why the work of the Export-Import Bank headed by George N. Peek is so important. That is why the bill now before Congress giving the President power to adjust our tariffs is imperatively needed.

But the rest of the world, in order to absorb enough of our farm products to make restriction of our output unnecessary, would have to sell us approximately $1,000,000,000 more of goods a year than at present. A change of such magnitude is not likely to be brought about in the near future, and, therefore, some restriction of output will have to be continued if our agriculture is not to suffer a new collapse.

The situation may be remedied somewhat by gradual Government acquisition of marginal farm lands. Through the Federal Surplus Relief Corporation $25,000,000 has already been made available for the purpose. But the program of taking land out of production by this means must necessarily be extremely slow. Lands to be purchased must be selected with care, and opportunities for the people living on these lands must be created elsewhere.

Another possible development is the replacement of the present system of piecemeal adjustments, commodity by commodity, with a comprehensive plan involving all production on the farms affected. Instead of separate contracts for wheat, cotton, tobacco, corn and hogs, and so on, a composite contract may be worked out. This would have to be adjusted to fit the needs of the individual farm and the wishes of the individual farmer. In this way temporarily adjusted production would give way to permanently coordinated production.

Whatever system is worked out should be based on the principle of voluntary cooperation, just as the present system is. The county production control associations which have been formed to operate the adjustment program constitute the greatest demonstration on record of the functioning of a responsible democracy. They show how the persons directly concerned can carry out, through a system of decentralized control in the 3,000 counties of the 48 States, plans made in Washington with the needs and desires of the whole nation kept in view.

-------A. A. A.-------

Discussion Statement No. 2 June 18, 1934
Material suggested for use in developing discussion of problems of agricultural production adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

- - - -0- - - -

THE COTTON BELT'S COMEBACK UNDER AGRICULTURAL ADJUSTMENTS

By
C. A. Cobb, Chief,
Cotton Production Section, AAA.

Following the crash of the stock market in the fall of 1929 the South suffered three of the most distressing years it has ever experienced.

The farm price of cotton dropped from an average of nearly 17 cents a pound in the fall of 1929 to an average of 9½ cents in 1930, to less than 6 cents in 1931, and to less than 7 cents in 1932. Business in the South was at a standstill, taxes were unpaid, mortgage foreclosures were numerous, and thousands of acres of some of the best cotton lands were taken over by banks and insurance companies.

Practically every railroad in the Cotton Belt was in the red at some time during that 3-year depression. Thousands of families were forced to return to their former homes in the South because automobile factories and other manufacturing plants in the big industrial centers either curtailed their operations or closed down entirely. College graduates walked the highways in search of work, and unemployment was more prevalent than ever before in history.

Business houses collapsed, banks closed, school terms were shortened, teachers went unpaid, thousands of farm families were thrown on charity, and the social and economic structure of the whole South threatened.

What caused that condition?

Principally, too much cotton! The price the farmer received for his cotton during the 3-year period 1930 to 1932 was so much lower than the price he had to pay for the things he bought that he was forced to produce more and more cheap cotton in order to get enough cash to pay taxes and other fixed charges.

He was forced, against his better judgment, to grow more cotton at a time when he should have been curtailing production to meet the decrease in demand, caused by the world-wide depression. He increased production in the face of decreased consumption until the carryover of American cotton reached an all-time record of 13 million bales on August 1, 1932. That is more than two and a half times what the carryover should be, if farmers are to get a fair price. The normal carryover of American cotton is around 5 million bales.

That huge carryover depressed the price of cotton until it almost wrecked the Cotton Belt. For example, on March 15, 1933, the farmer should have been getting 12.4 cents a pound for his cotton if he was to receive a price on a parity with the price he was paying for the things he bought. Actually he was getting 6.1 cents, or less than half the parity price.

That was the condition in the Cotton Belt in the spring of 1933, just one year ago, when the Agricultural Adjustment Administration launched its first adjustment program, the cotton program.

COTTON PROGRAM HAS TWO OBJECTIVES

The cotton adjustment program that was started last spring set out to do two things -- To reduce the supply, and increase the price of American cotton.

PRICE

Turn your memory back to March, 1933. The map of the nation's business at that time showed not one bright spot in the entire United States. It had been practically the same the year before, and the year before that. But when we started talking about controlling production of cotton, the price started climbing. The farm price of cotton on March 15, 1933, was 6.1 cents a pound; in May it was 8.2 cents; in June, 8.7; in July, 10.6; in August, 8.8; in October, 9 cents; in November, 9.6; in January, 1934, it was 10.3; in February, 11.7; in April, 11.6; and in May, 11 cents.

That's how the cotton adjustment program and other recovery measures succeeded in raising the price of cotton. They raised it from 6.1 cents in March, 1933, to a 3-year peak of 11 cents in July; the price has been around 9, 10, and 11 cents practically ever since. These measures changed the business map of the Cotton Belt from bad in the spring of 1933 to good in December, and it has been good ever since.

SUPPLY

Now let's see what last year's program did to reduce the supply.

The 13-million bale carryover of American cotton was almost two and a half times its normal size on August 1, 1932. But last year's emergency program turned more than 10 million acres of growing cotton under the ground and reduced the supply about $4\frac{1}{2}$ million bales. On top of that, there was a heavy consumption last year, due to a revival of industrial activities, and the carryover would have been much lower if it had not been for the favorable growing season and the big yield of 208.5 pounds of lint cotton per acre.

Our carryover on August 1, 1933, was 11,600,000 bales, compared with 13 million bales the year before! It should be around 10 or $10\frac{1}{2}$ million bales at the beginning of the new cotton year on August 1, 1934.

So it is safe to say that the cotton adjustment program is moving right a-

long in solving the two problems it set out to solve; namely, raising the price of cotton, and reducing the supply.

In addition to reducing the supply and raising the price of cotton, the program did another thing. It sent badly needed cash money into the Cotton Belt last summer and this spring. The one million farmers who cooperated in last year's emergency program received more than 112 million dollars in rental payments, 50 million dollars in option profits, and borrowed more than 120 million dollars under the terms of the 10-cent loan.

COTTON PROGRAM STARTS BUSINESS REVIVAL

In March of last year, just before cotton prices started climbing and Government checks started pouring into the Cotton Belt, the map of the nation's business showed bad business all over the Belt. But bright spots began to appear just as soon as the plow-up checks reached the Cotton Belt in volume. The same map for December, 1933, shows good business over all of the main Cotton Belt.

That's what the cotton adjustment program did for business in the Cotton Belt in less than a year. It gave farmers a better price for their cotton, and more money. And it was more money from plow-up checks and a better price for the crop that gave them a new grip on life and a desire to start over again. It changed chaos to order, dissatisfaction to contentment.

The March issue of the Manufacturers Record shows that building and construction projects in the 16 southern States amounted to only 27 million dollars in February 1933 compared with 45 million dollars in February 1934. The total contracts let for the first 4 months of 1934 exceeded by 131 percent the awards for the corresponding period in 1933, and by 109 percent the awards in 1932. Awards for building and construction projects for the first 4 months of 1934 were the highest in three years.

The retail mercantile business in the Cotton Belt was at a standstill in the spring of 1933. Credit was out of the question, and there wasn't enough cash to carry on business in volume. But when the Government checks started rolling into the Cotton Belt last summer business began to pick up. Nation's Business says, "December retail trade was undoubtedly the best in a long time".

A late issue of the Wall Street Journal shows that department store sales in the Cotton Belt in April, 1934, were about 17 percent bigger than they were the year before. This gain in the Cotton Belt compared with a gain of 5 percent for the country as a whole.

In 8 of the 12 Federal Reserve Districts, retail sales this spring increased materially over those of last spring. And where was the largest increase?

In the Cotton Belt.

Department store sales in Richmond, Va., were 20 percent bigger during the first 4 months of 1934 than they were in the corresponding period in 1933. They were 42 percent bigger in Atlanta, and 36 percent bigger in Dallas. The biggest in-

creases for the country in the order named were Atlanta, Dallas, Cleveland, Chicago, and St. Louis.

The Bureau of Agricultural Economics reports farmers' cash income in March, 1934, as 408 million dollars compared with 275 million in March, 1933. The same bureau shows that the cash income of American agriculture increased more than 39 percent during the year ending May 1, 1934.

About 12 percent of that 39 percent increase came from rental and benefit payments to farmers who cooperated in the various adjustment programs and the remaining 27 percent was the result of increased prices due, in part at least, to controlled production. And, the bureau shows, that for the first time since 1920, farm lands increased in value. Farm lands on March 1, 1934, were listed at 76 percent of their prewar value, compared with 73 percent on March 1, 1933.

The automobile industry is often taken as a barometer of business. And the Manufacturers Record shows that automobile production in March, 1934, was 340,000 units or 40 percent bigger than it was in February of the same year, and 173 percent greater than it was in March, 1933. The registration of new automobiles in 31 States in April of this year was 84 percent bigger than it was for that period last year. In the Atlanta district it was the biggest in 4 years. Gasoline consumption in the 9 main cotton-producing States was 5 percent bigger in 1933 than in 1932, compared with a gain of one-tenth of one percent for the entire country.

For the country as a whole, business failures were 36 percent fewer in 1933 than they were in 1932. For the Cotton Belt, they were 70 percent fewer. The cotton reduction program undoubtedly had a lot to do with those conditions, because tax collectors in the Cotton Belt report better collections in the fall and winter of 1933 and 1934 than in several years. Banks report bigger deposits, insurance companies better business, and railroads increased earnings. All in all, the Cotton Belt is much better off now than it was a year ago.

And why?

Because it has changed from blind farming to adjusted production. From 6 cent cotton to 10 cent and 11 cent cotton. The Cotton Belt has already concluded one reduction program, the 1933 plow-up. It has signed contracts for another - the 1934 voluntary acreage reduction program, and it is now at the threshold of still another, the Bankhead Act. And all in less than a year. And that's probably why it's coming back so fast. It's working fast, much faster than any other section of the country.

Let's run over some of the high lights in the cotton programs thus far. In last year's emergency program 1,042,000 contracts were signed. Of that number, 1,026,000 were certified for payment. The records show that 98.6 percent of last year's contracts were accepted. Those contracts represented 73 percent

of last year's cotton acreage.

BENEFIT PAYMENTS AND THE PROCESSING TAX

Now for the payments. More than 112 million dollars in rental payments went into the Cotton Belt in last year's plow-up program. More than 11 million dollars have gone out thus far for profits on cotton options, more than 38 million dollars for the cotton pool, and more than 120 million dollars have been loaned to farmers under the terms of the 10-cent loan.

But is the cotton program paying its way?

The answer is that the cotton program is paying its own way, and the money is coming from the processing tax of 4.2 cents per lb. on cotton just as it was supposed to do. This tax is paid by the first processor of the raw cotton after it is ginned and baled. It is paid into the Treasury of the United States and is used to pay the cost of the cotton-adjustment programs. Here are the latest figures from the Treasury Department that collects the tax, and from the financial section of the AAA that pays it out.

On March 31, 1934, there had been collected $118,661,000 in cotton processing tax, and there had been paid out in rental payments and all other expenses of the program, only 118 million dollars. In other words, the cotton program has not only paid its way so far, but on March 31 there was a surplus of more than a half million dollars in the treasury.

Another question sometimes asked is,- Where does this processing tax come from? Doesn't it eventually come out of the consumer's pocket, and doesn't it make the price of cotton articles so high that people can't buy them?

Here are the maximum figures on the processing tax - the processing tax that has saved the South - on a few common articles:

A man's work shirt	3.5 cents
Overalls	8.3 cents
Women's hose, per pair	½ cent
Big bed sheets	7.6 cents

Those are the maximum amounts, and in practice the tax should be much less. For example, the processing tax on a cotton dress should not be more than 3.4 cents, and on a man's work shirt not more than 2.6 cents. I don't think any fair-minded person would object to paying 3 or 4 cents more for a dress or a shirt when by so doing he helps to save his own job and helps to better conditions in the Cotton Belt which contains 31.8 percent of the land area and 33.6 percent of the population of the United States. There is not a worker nor a business in the whole nation that has not in some way felt the quickening pulse of the flow of better business set in motion by the cotton program.

The cotton program is not only paying its way but last year's emergency program more than doubled the farm value of the cotton crop. For example, the farm value of the 1932 cotton crop, including lint and seed, was only $425,488,000 compared with $857,248,000 for the seed, lint, rental payments and profits on

options in the 1933 crop. That's an increase of 101.5 percent. And in less than a year. Furthermore the records show that the 1933 cotton crop, after the plow-up, brought cotton farmers more money than any other crop since 1929 when the price of cotton was almost 17 cents a pound.

WHY IS THE PROGRAM BEING CONTINUED?

The reason for continuing the reduction program was the fact that although the price of cotton is much higher than it was a year ago, it is still below the parity price. The parity price of cotton on March 15, 1933, was 12.4 cents a pound, and the actual price was 6.1 cents. But on March 15, 1934, the parity price was 14.9 cents compared with the actual price of 11.7 cents. In other words, the price of cotton on March 15, 1934, still lacked 3.2 cents a pound being up to parity on that date, and therefore the program is being continued.

THE 1934 PROGRAM

Now let's look at the 1934 program.

The sign-up for the 1934 voluntary acreage reduction program started on January 2, 1934, and closed on February 15. During that 45-day period nearly a million farmers signed contracts voluntarily agreeing to reduce their 1934 cotton crop by more than 15 million acres. And of the 955,000 contracts approved in the field 742,000 had been received and checked in Washington on June 6, and as of June 7, fifteen million dollars, in 1934 rental payments had already gone into the Belt and checks were going out at the rate of about 40,000 per day.

The 1934 program will pay cooperating farmers between 125 and 130 million dollars, payable in three installments. The first installment of approximately 50 million dollars will be completed by about the last of June. The second installment of 50 million dollars will be paid the latter part of this summer, and the parity payment of between 25 and 30 million dollars will be made in December. The present payment is the fourth benefit payment that farmers have received from the cotton programs in less than 10 months. The first was the rental payment of last year, then the 10-cent loan, then profits on cotton options, and now the first installment of the 1934 program.

THE BANKHEAD ACT

That brings us to the Bankhead Act, which is to be administered by the Department of Agriculture.

The Bankhead Act does not take the place of the 1934 program. Neither is it a substitute for the processing tax, for it provides no benefit payments. It provides a method to supplement the voluntary program. The Bankhead Act limits the sale of the 1934 United States crop to 10 million bales that can be marketed tax-free. Each State, each county, and each farmer is given tax-free allotments of cotton for 1934. If a farmer markets more than his allotment he will have to pay a tax amounting to 50 percent of the market price of the cotton.

SOUTH LEADING IN INDUSTRIAL RECOVERY

That the South is leading the rest of the country in business and industrial recovery is a matter of record. The reason is that the South got the first benefits from the AAA. One cotton program is already history, another has been contracted, and the third, the Bankhead Act, is under way. But the South didn't get the first program for political or sectional reasons. It got it because the first cotton program came at a time when the Belt could accept it.

To summarize the story of recovery in the South since March 1933, we'll begin with money; banking.

There are 12 Federal Reserve Districts in the United States. Four of those districts -- Atlanta, Dallas, Richmond, and St. Louis are influenced by conditions in the Cotton Belt. And two of those districts -- Atlanta and Dallas -- are almost wholly controlled by Cotton Belt conditions.

The Dallas District includes all of Texas, half of New Mexico, and parts of Louisiana, Oklahoma, and Arizona. Total loans and investments amounted to 359 million dollars in the week ending May 17, 1933, compared with 387 million for the corresponding period in 1934.

Member banks were borrowing from the Dallas Reserve Bank at the rate of from 1 to 3 million dollars a week until the plow-up checks started into the Belt last fall. When that happened the member banks stopped borrowing. The last money the Dallas District borrowed was on November 29, 1933, and that was only $600,000. The Dallas District has not borrowed a cent since that date, and the Dallas Federal Reserve Bank has more money than it needs.

The Atlanta Federal Reserve District includes Georgia, Florida, Alabama, and substantial parts of Tennessee, Mississippi, and Louisiana. The Dallas and Atlanta Districts together serve 10 of the main cotton-producing States.

In April, 1933, the Atlanta Federal Reserve District was borrowing money at the rate of about 9 million dollars a week. That rate decreased during the fall as the plow-up checks reached the Belt until it stopped completely in February of this year. The last money the Atlanta District borrowed was on February 21, 1934. And the Atlanta Federal Reserve Bank, like the one at Dallas, has more money than it needs.

That is what happened in banking circles in the main part of the Cotton Belt in less than a year. We might add also that bank clearings for the country as a whole, were exactly 50 percent bigger in April, 1934, than they were in April, 1933.

Dun and Bradstreet shows that the Richmond Federal Reserve District had 143 business failures in April, 1932, only 98 in April, 1933, and only 59 in April, 1934.

The Dallas District had 82 business failures in April, 1932, only 65 in April,1933,and only 31 in April, 1934. In the Atlanta District the failures were 123, 73, and 76. For the country as a whole, the directory shows that business

failures in February, 1934, 11 months after the New Deal got under way, were the fewest in 14 years or since 1920.

The March issue of the Dun and Bradstreet Review shows that every section of the country had fewer business failures this spring than last spring. But the greatest improvement was in the South. The Atlanta Federal Reserve District leads the other 11 in reductions in the number of business defaults. Failures in the Atlanta District were 20 percent fewer in February, 1934, than in February, 1933.

In the four Federal Reserve Districts of Atlanta, Dallas, Richmond, and St. Louis the business failures in February, 1934, were 70 percent fewer than they were in February 1933. There were 144 failures in that territory in February 1934 compared with 491 in February of last year.

For the country as a whole, business failures were 45 percent fewer in April than they were in April a year ago. Bank clearings were 50 percent bigger; life insurance 23 percent better in March, 1934, than in March, 1933. Freight carloadings for the first 17 weeks of 1934 were 19.4 percent bigger than they were in that period in 1933. Electric power production was 2½ percent greater in 1933 than in 1932. Last year's production was the greatest since 1929. New automobile registrations in 31 States in April, 1934, were 84 percent more numerous than in the corresponding period in 1933.

As a result of the measures taken by the Farm Credit Administration, approximately 170 million dollars worth of farm mortgage loans have been closed in the 14 cotton-growing States. This means that many farmers whose farms have been sold to meet mortgages have been refinanced and the owners are now in position to continue their businesses. When the Farm Credit Administration started operation in June, 1933, it received hundreds of letters from the Cotton Belt every day asking for help. Now it is receiving fewer than a dozen a day.

WHO GETS THE CREDIT?

Who is responsible for this improvement in business, in credit, in finance, and in the price of cotton? Is it the folks in Washington, or the folks back home behind the plow?

It's a combination of all. But most of the credit goes to the men and women in the Cotton Belt. They have wanted some sort of controlled production of for half a century. They attempted voluntary reduction programs in 1905, in 1915, in 1921, and again in 1927. They couldn't get enough signers to turn the trick. But when the Government furnished them with the opportunity and the backing, they went over the top to victory not once, but twice in less than a year, and are now taking up their work under the terms of the Bankhead Act which is the third program for the Cotton Belt in less than a year.

There are approximately 1,000 counties in the Cotton Belt. Each county has three county committeemen -- 3,000 for the Belt. Add 20,000 community committeemen and the county agents and you have about 25,000 people. And that's the army that deserves most of the credit for the success of the cotton programs thus far.

County agents, vocational teachers, bankers, business people, and local organizations all helped to make last year's program a huge success. But without the cooperation of the more than a million farmers who signed last year's contracts the program would have fallen far short of the tremendous success it was.

We, here in Washington, have done our bit, but our efforts would have been worthless without the whole-hearted cooperation of the men and women in the field. So I would say that the big improvement that has taken place in the Cotton Belt in the last year is due largely to the untiring efforts of the 25,000 county and community committeemen, county agents, vocational teachers, and local business organizations, and to the million or more men and women who have stood behind the contracts they signed last spring.

Discussion Statement No. 3. June 20, 1934.
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

----------0----------

THE EMERGENCY YEARS, 1933-1934

Prepared by the Division of Information,
Agricultural Adjustment Administration

A year ago this May and June the Department of Agriculture was racing against time to put into effect the powers granted it by the passage of the Agricultural Adjustment Act. Steps were being taken to set up the Agricultural Adjustment Administration. Its members knew how fast they had to move if benefits from their action were to be felt during the 1933 crop year. First in the Cotton Belt, then in the Wheat Belt, sign-up campaigns for the new adjustment programs were rapidly carried through.

Now, a year later, the necessity for action is no less great: America's farm future is no less in need of careful planning, of adjustments that are fundamental, than it was a year ago. But this year, in considering plans and in making adjustments, there is an advantage in the breathing spell afforded by the programs already in operation. Instead of moving crop by crop, the advance toward our main objectives can be made with the whole farm in view. The methods can be less rough and ready than they were 12 months ago, and, most important of all, the Adjustment Administration's work can be guided by the experience in programs which have been under way for a complete crop year.

The several crop-production adjustment programs were planned primarily with control of production in view, to eliminate surpluses for which there was no effective demand. They had been devised also as the greatest measures of crop income insurance that the agricultural world has known, but that feature did not then impress the public because people were not thinking in terms of crop failure.

Benefit Payments Provide Income for Drought Victims

Yet, last year in Kansas, the largest wheat-producing State, drought reduced wheat production to 57½ million bushels. Now the average production of wheat in Kansas for the 5 years 1928-32 was 177 million bushels. The drought, in other words, prevented something like 120

million bushels of wheat from being grown. If there had been no adjustment program last year, the income of the average Kansas wheat farmer would have been only that received from 1/3 of a normal crop. In actual fact, many farmers would have had practically no income at all, so complete was the destruction in some areas. But the situation of the vast majority of Kansas wheat farmers, that is of those who cooperated in the Agricultural Adjustment Administration's voluntary control program, was not nearly so bad as that. Irrespective of the income they obtained from what wheat they had to sell, they had their benefit payments on the acres they had contracted to retire; they had a cash income which the drought could not reduce. They were sure of 28 cents a bushel on 54 percent of their average production for the years before 1933 in which Kansas grew an annual average of 177 million bushels of wheat.

The wheat farmers of the United States have already received $68,000,000 in benefit payments on their 1933 crop; in the course of the next few weeks, when the second installments are sent out, the total will pass $98,000,000. Where the money has been in the nature of an income insurance payment on a crop that failed, the cash has in many cases been the decisive factor enabling a man to keep his home.

The full implications of this experience of last year are now being emphasized by the still more extensive drought which this spring has spread over the wheat area and has extended to much of the Corn Belt. This year, the number of wheat farmers whose income would have been totally wiped out if it had not been for their benefit payments will be much larger than last. But the programs instituted last spring will make it possible for them and for other growers of staple crops to obtain returns on the basis of average production rather than on annual yields that fluctuate with the hazards of each single year.

The benefit-payment system, of course, applies to all the other crops included in adjustment programs as well as to wheat. Not a year goes by without crop failure on about 10 million out of our 360 million acres of farm land. Some of the damage is caused by grasshoppers or chinch bugs, some by boll weevil, some by excessive heat or cold, some by flood or drought. The particular areas afflicted differ from year to year, but there is always some area that suffers crop destruction. Just at the moment the wheat farmers and corn-hog growers are the men who will benefit most in the aggregate from the insurance feature of the adjustment programs, but there are plenty of individual growers of other groups as well, scattered across the country, whose situations will be eased by cash supplements to a vanishing income.

Making History in Agriculture

It seems probable that the months from May 1933 to midsummer 1934 will appear in the future as a more or less definite period in our progress toward agricultural adjustment. By March 1933 the kind of rugged individualism in which each man was expected to grapple alone with all the factors affecting his welfare and in which it was hoped that somehow the

blind competition of neighbor with neighbor would result in a state of balance, at least now and then, has ceased in any degree to meet the agricultural situation. It had become obvious that the farmer could not sell on a cutthroat competition basis and buy in controlled markets without great suffering to himself.

The most pressing immediate problem with which the farmer was faced was the loss of farm purchasing power growing out of the surpluses of agricultural products. Overproduction had depressed farm prices until his purchasing power had been cut to less than half of what it was before the war.

Before the war, the United States was the greatest of all exporters of foodstuffs for the world market. The commencement of hostilities added military demands to the usual economic demands made upon our output. In 1917 our military needs were added to Europe's. To fill these new demands, between 1914 and 1919, American farmers brought more than 40 million new acres under cultivation. After 1920 these acres (and more besides) should have been retired from cultivation.

Because our 40 million surplus acres were not retired after the war, American farmers throughout the period beginning in 1921, steadily got less and less for more and more products. After 1929 the gradual decline in farm prices became acute. Our shrinking markets, both domestic and foreign, simply couldn't take all we were producing. We finally discovered that losing our European market for agricultural goods meant also the loss of one of our most important domestic markets for manufactured goods, because as the Europeans stopped buying from American farmers, the farmers had to stop buying from American industry, and that meant losing home orders for something like 7 billion dollars' worth a year.

The emergency of overproduction with which we were confronted in the spring of 1933 and which, to a lessened extent, still confronts us, took two closely related forms. In the spring of 1933, until the A.A.A. came into action, American farmers were intending to plant over 40 million acres in produce for which there was no market. But since they were not only intending to do that in 1933 but had already done it for a decade, the maladjustment of their current situation was made much worse by vast stores of accumulated stocks of such products as cotton and wheat whose availability was a continuous weight keeping market prices down.

We had, in other words, not only a current prospect of growing surpluses, but a past heritage of surpluses already grown.

Production Control the Logical Solution

Let us be perfectly clear about what we mean by a surplus. A certain number of people seem to labor under a misapprehension about the crops to which crop production adjustment programs are applied. Reductions are not applied to the acres on which are grown the crops sufficient

to provide for our normal domestic needs and for such export markets as remain open to us. Reductions are not applied to the areas on which are grown the crops sufficient to provide carry-over stocks adequate to fill the Nation's needs in case of crop failure in one or more commodities in a given year. For example, no matter how small our wheat crop this year may be, we have on hand ample supplies to keep the Nation from wanting for wheat. Our reductions are only applied to the acreage whose produce was formerly sold in the markets that have vanished, and cannot now be sold in any market to which we have access. The price-depressing effects of these unsalable commodities is what the present crop production adjustment programs are helping the American farmer to avoid.

By himself, he cannot avoid them. Under an individualistic system, surpluses had not only been ungoverned; they were ungovernable. The fundamental job of the Agricultural Adjustment Administration in the spring of 1933, was to bring order into that anarchy; to provide a method for governing economic forces that were running wild. The task was threefold.

The Administration had to offer American farmers a method of cooperative organization for treating their collective problems collectively.

It had to retire 40 million acres of surplus-producing land, and if possible to cut down not only current production but excessive stores.

It had to increase the purchasing power of the farmer to bring him back to economic parity with the rest of the Nation and to reestablish the American farm market as an outlet for American industrial goods.

These were the three objectives with which work was begun. Looking back over that first emergency year, how much have we accomplished? How far are we on the road to each of these goals?

The Agricultural Adjustment Act has been called a constitution for farm equality. Perhaps constitution is too large a word, but at any rate, in organizing themselves in the county production control associations which now cover more than two thirds of the production of our major crops, the farmers of America have united in self-governing bodies capable of treating their mutual interests on a national scale. Perhaps, in the long run, these organizations will appear as the most important outgrowth of the first year under the Agricultural Adjustment Act. They are almost certain to be the most permanent features of the first year's program, for while it has been expected all along that the specific methods used in retiring our acreage will change, the farmers' production control associations are so constituted that they are adaptable to the application of other methods of agricultural adjustment.

So far, three specific methods have been used to cut down our surpluses. They have aimed less at taking surpluses off the market than at preventing them from getting there. Control of farm operations at the production end was essential to an improvement in price. In 1933 production was held down to what the 1933 market was able to absorb;

and the farmer stood a chance not only of getting a fairer price return on his products, but of holding down the volume of piled-up stocks that were exerting a deadening influence on his sales.

For the crops that are grown by large numbers of individuals across wide areas of the country, a system has been worked out by which farmers contract with the Government for a pro rata reduction of their basic commodity acreage, and receive, in return for contracting their production, what is known as a benefit payment. The amount of the benefit payment is worked out in terms of the farm parity which the Adjustment Administration aims to establish.

Parity Prices Explained

What do we mean by farm parity? The period from August 1909 to July 1914 has been selected as a period in which the various groups in American economic life were in stable and relatively satisfactory relation to one another, and has been called a parity period. In other words, the ratio between the prices farmers got for their produce and the prices farmers paid for the things they bought from the industrial community during those years has been taken as a yardstick for measuring conditions as they are today. By comparing the price the farmer is now actually getting with what the parity price would be, it can be seen how far he is from a position of equality. This difference is made up to him by means of benefit payments on his reduced acreage.

The benefit payments do not constitute a drain on the national treasury. The crop production adjustment programs are self-financing. The money for the benefit payments is raised by processing taxes, levied on the commodities for which programs have been undertaken and collected at the point where they begin to be prepared for use by the consumer. The money all goes to the producer in the form of benefit payments, and it is the existence of the benefit payment system that makes possible control of production and higher prices for farm products.

Our year's experience indicates that as a means of helping the farmer to bring himself back to parity, the benefit payment method far surpasses any other plan so far devised for controlling the production of our basic crops.

In 1933, 40 million acres of cultivated land had to be taken out of production if the market was not to be glutted as it had been glutted in previous years. The production control-benefit payment system effected a reduction very little short of that amount. For the 1933-34 crop year, we have taken or are taking 10 million acres out of cotton, $7\frac{1}{2}$ million out of wheat, $\frac{1}{2}$ million out of tobacco, 20 million out of corn. These were removed by the application of pro rata cuts to the fields of each farmer signing one or more of the A.A.A. contracts. For all the basic commodities produced over wide areas, except milk and the group of products just recently added to the "basic" list, control programs are now in actual operation.

The benefit payment system of production control, however, is not the only type of control which has been applied. For crops which are raised in restricted areas the marketing agreement has proved to be an advantageous means of stabilizing prices at levels fair to producers. Among the seven commodities originally designated as basic, rice was found suited to treatment through marketing agreement; in addition 30 or more other products of special regions, fresh fruits and vegetables, nuts, and so forth, are being controlled by this means. The agreement for cling peaches has raised the crop returns to California growers to more than five times those of the previous year; a series of agreements for various vegetables increased the total returns to truck gardeners by some 32 percent. An equal number of new agreements for other localized crops are now in the course of being made; it appears that the establishment of this kind of control, in contrast to the benefit payment systems, is only at its beginning.

A third method of securing fairer prices to farmers is by licensing the distributors of their produce. This method has been used in the case of milk. About 15 percent of the fluid milk consumed by non-farm populations is distributed through licenses in 19 cities. The license is often used as an instrument to enforce marketing agreements.

This brief account indicates the three ways in which control of production has been applied, and the results which the methods have obtained.-- results, that is to say, in taking surplus acres out of production.

But it is possible to measure the results in another set of terms, in terms of the increase in farm income effected by our efforts. It is no new thing for the farmer to be the member of our economic community who initiates buying when a business depression is over. He has done it at various times in our national economic history, and all business indicators show that during the latter part of 1933 he was doing it again. Obviously, the increase in farm income was not due to the crop production adjustment programs alone. It was also due to the general business upswing, to the Government's programs for other nonfarm groups, and to the Government's monetary policy, particularly as it affected farm exports. But it is worth remembering that the first program initiated under the Agricultural Adjustment Administration was the cotton program, and the first reports of business pick-up came from the South.

Adjustment Act Accomplishments Listed

Altogether, it looks as though the efforts to adjust our agricultural production to the conditions of today had accomplished as much during the first year under the Agricultural Adjustment Act as it was reasonably right to expect. The year 1933 seems to have secured to American farmers some pretty substantial advantages. These advantages include:

1. In 1932 the farmers of America, who made up 26 percent of our population, had hardly more than 7 percent of the national income to spend.

By the end of 1933, their purchasing power, expressed in relation to the prices they had to pay for the goods they bought, was up 20 percent; in other words, they were 20 percent nearer to parity than when the Agricultural Adjustment Administration's programs were begun.

These facts were true of farmers in general. The farmers who had signed adjustment contracts or marketing agreements were of course very much nearer to parity than that. Look at the three programs on which progress had gone far enough to show actual figures on their operations.

The cooperating cotton growers had received 112 million dollars in rental payments and 48 million dollars in option profits. The market price of cotton on March 15, 1933, was 6.1 cents; on March 15, 1934, it was 11.7 cents; this latter price was 79 percent of parity on that date, and if benefit payments are added to the amounts received from sales it will be seen that the cooperators' total returns were very close to parity.

The wheat cooperators had received 66 million dollars in benefit payments; by July 1934 the amount rose to 95 million dollars. The market price of wheat on March 15, 1933, was 34.5 cents; on March 15, 1934, it was 70.9 cents; the latter price was 67 percent of parity on that date, and the combined market price plus the full benefit payment was 98.9 cents.

The tobacco cooperators were to receive 40.7 million dollars in rental and benefit payments; the market price for the 1932 season was 11.6 cents per pound for flue-cured tobacco, the most important type; for the 1933 season the market price was 15.2 cents; the latter price was 84 percent of parity on March 15, 1934.

These changes in farm income meant a lot to the farmer; they also meant a lot to American industry, which last fall recovered, in the farm market, one of its most valuable outlets for manufactured goods.

2. Progress has been made in reducing the accumulated stocks which must be eliminated before the position of agriculture can again become really sound. The cotton surplus has been cut by 2 million bales, though it is still about twice a normal carry-over. The effect of the drought on the wheat carry-over is still hard to estimate; it is probable that it will give us an appreciable reduction. But we could hardly expect to wipe out both the current surplus and the piled up surpluses of all commodities in a single year.

3. To the farmers, and to the business men from whom the farmers buy, the cash assets enumerated probably seem more important than any other accomplishment of the first year's efforts to meet the farm emergency. It is, however, quite possible that in the long run the emphasis will be placed elsewhere. When the Agricultural Adjustment Administration began to function, agriculture was in a state of chaos and anarchy. With the aid of the fundamental adjustment act, the farmers have now established a system of self-government in the place of anarchy and brought a measure of order out of chaos. They have done this through the county production control associations.

Production Control Associations Majority Organizations

Now, the successful practice of economic democracy is no easy thing. If anything, it requires more skill, and patience and fairness to all, than does the successful practice of political democracy. Its concrete difficulties have recently been tersely expressed by the editor of one of our Middle Western farm journals, when he wrote:

"Running a county control association is a difficult job. Many of those trying to do it don't realize how difficult it is or why it is difficult. That makes it harder....The reason is simple enough. No officer in any farm organization has ever had any experience in dealing with an organization representing 90 to 95 percent of the farmers in the township and county. All of our old farm organizations are minority organizations. There have always been more farmers who didn't belong to the leading organization in any county than there were farmers who did belong. In actual practice, that meant that a group of farmers, who thought about alike on various subjects, could run the organization, elect their friends to office, and handle affairs with no consideration for the view of the outsiders. If there were some dissenters on the inside they could quit being members. And often the dissenters did quit.....

"They have to learn to get along together. When an election is held and policies are adopted, the winners need to make sure that the minority is represented on the board and that the policies selected are enough of a compromise so that both majority and minority will approve and support them. When a question comes up and 60 percent vote "yes" and 40 percent vote "no", that shouldn't settle the issue. Both parties should work to get a compromise plan that will draw a 90 percent "yes" vote. Instead, too often the majority pushes things through in a high-handed way, and the minority quits or sulks and gets ready for revenge at the next election. Both are at fault. If county control associations succumb to weaknesses of this sort, they will be torn wide open and the whole adjustment program will fail.

"In the last analysis, the whole program for raising farm income turns on whether farmers in their own local associations can become familiar enough with the facts to decide on policies intelligently and whether they can learn how to work together skilfully enough to administer the programs decided upon.....For all of us, it's a new job. It's a hard job. It can be handled only if we recognize its difficulty and its importance and still resolve to conquer it."

This farm editor was quite right in pointing out the difficulties which the county production control associations are experiencing, but most people have faith in the farmers' capacity to handle this job. If members of these associations continue their active interest in them, it may well be that the county production control associations are the farmers' greatest guarantee of a better future. They are a greater guarantee than this year's cash returns, because they are built to outlast a single crop season. They are a greater guarantee even than the systems of production

control which they were organized to administer, because those systems, created under pressure for a state of emergency, may be superseded by improved and different methods of control---as a matter of fact certain changes and improvements are already in sight. The county production control associations are flexible organizations of the persons whose vital interests are centered in agriculture. Their members are in a position to recognize which are the sound plans for raising the farmer the rest of the way to a position of social and economic parity in the American community, and maintaining the balance between city and country once he gets there. And it seems probable that after American farmers have experienced the advantages of living in a neighborhood where cooperation has replaced the competition that was characteristic of American farm life of the last decade--competition which, however unwilling, was none the less cutthroat--they will not again permit major maladjustments in American agriculture to occur and to get out of hand.

------------0------------

Discussion Statement No. 4 June 23, 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

---------0--------

THE NEXT STEP IN THE EMERGENCY AGRICULTURAL PROGRAM

****

Address by H. R. Tolley, Director of Program Planning Division, Agricultural Adjustment Administration, before the Illinois Farm Advisers' Conference, at Urbana, Ill.
June 11, 1934

The recent drought and the disaster it has brought to thousands of farm families have constituted a situation that commands universal sympathy, and inspires immediate helpful action on the part of anyone who can help. Fortunately, some governmental agencies have been in position to arrange at least partial relief to mitigate the suffering. The Agricultural Adjustment Administration and the Extension Service, organized as they were to meet an emergency of a different kind, have thrown their forces into the breach. Together with the Farm Credit Administration, the Federal Emergency Relief Administration and the Civilian Conservation Corps, using the funds asked of Congress, much has been done to soften the blow.

The drought has emphasized the value of agricultural planning. In the old days the individual was left strictly to himself to cope with crop failure and other misfortunes as best he could. Now we recognize that it is the responsibility of society to share the burdens and the risks.

In several specific ways the programs undertaken under the Agricultural Adjustment Act have helped to meet the drought emergency. First is the crop income insurance feature of the benefit-payment plan. Because they are calculated on production over several years, these payments are not affected by what happens in a single year. In many cases they are not sufficient to take care of the farmers' needs without other relief, but they do give a minimum of income--which is more than nature has done this season. Second is the fact that the Adjustment Administration mechanism provides for quick action. The beef cattle program which was already being prepared fitted right in with the needs of the hour when drought struck, and we hope it will make it possible to

market large numbers of animals without ruining the price. Third is the increase in the amount of acreage in feed crops as a result of the wheat and corn-hog programs. The Administration had urged farmers to put contracted acres into pasture and forage wherever possible. If there had been no reduction in the wheat acreage, the amount of forage would be even smaller than it is. Fourth, the campaign to put more land permanently into grass and woodland gives a powerful stimulus to the battle against erosion by wind and water--a battle which must be fought with increasing vigor if the American heritage of rich soil fertility is not to be destroyed. Fifth, the Administration is in position to assist in selecting from the drought areas, submarginal lands to be acquired by the Government. Land which under the prevailing arid conditions can never bring anything but impoverishment to those who farm it, might better be turned to some other use and the farmers now occupying it given a chance to make a new start elsewhere.

Coming as it did soon after the development of the corn-hog plan, the fourth of the major adjustment programs, the drought in a sense marked off the first phase of the adjustment effort and helped to point the way we must go in the next phase.

First Year Under AAA Brings Substantial Achievement

The first year under the Adjustment Act has brought substantial accomplishments. The incomes of cotton, wheat, and tobacco producers have been materially increased. This increase has been brought about in part through increased prices resulting from adjustment of supply to demand, in part through benefit payments obtained from processing tax proceeds, and in part through monetary and other policies of the National Administration. Huge carryovers of these commodities, which have been accumulating for years, have been brought down at least part way to normal.

The consideration effect of the adjustment programs is evident from the fact that the gross income of farmers from crops during 1933 was 55 percent greater than during the preceding year. Income from livestock, supplies of which can not be adjusted so rapidly, was little changed. But if prices of crops improve, it is only a question of time until livestock prices are brought into line with them.

It is fair to say that considering the scope of the efforts, the vast amount of detail involved, and the relatively short period of time that has elapsed, the Adjustment programs have been as effective as could reasonably have been expected. Now that routine systems have been set up, we shall undoubtedly be able, in the future, to carry out plans with more precision as to timing.

Problems For the Future

Now what about the future? Is the outlook good for continued price improvement? Can we abandon all controls at an early date, and let agriculture return to laissez faire, for better or worse?

We must recognize that the desired balance between crops and available markets has not yet been achieved. While the buying power of domestic consumers has increased over what it was a year ago, the number of unemployed is still large and the activity of many of our so-called heavy industries remains greatly curtailed. Furthermore the trend of exports of farm products continues downward. The total volume of exports is now well below the 1910-1914 volume. The reciprocal tariff bill can be used to stimulate international trade, but much will depend on whether other countries continue to insist on keeping their imports at a minimum and on being as nearly self-sufficing as possible.

The labor supply on farms continues far in excess of demand. This is because of the shift of population from cities to farms, and to the cessation of the normal exodus of young people from farms to industry during the last four years. In recent years about half of the normal increase of population of most rural States--the increase of births over deaths--has been going to industrial States. But during the period of reduced industrial activity, those who normally would have left the farm have been forced to remain.

In general, agriculture still faces a greatly reduced export outlet, a low level of domestic demand, stocks in excess of normal, and a capacity for production greatly in excess of probable requirements.

We do not yet know the full extent to which the drought will cause the Nation to cut into accumulated supplies of foodstuffs, nor how much revision it will permit in our acreage requirements for 1935. But two or three things are already becoming clear.

We must continue to make certain that our plans have sufficient flexibility to take care of exceptional and unexpected circumstances. We must guard against the possibility of a shortage in the Nation's food supply. As long as American farmers were habitually exporting large amounts of foodstuffs, there was little chance of a shortage at home. A partial crop failure simply meant cutting down our exports for that season. Now that we are approaching a domestic basis for some commodities it becomes important that we should assure food reserves in case Nature makes drastic reductions in the supply. It has been suggested that we follow the policy of always keeping reserve stocks of staple commodities. This policy would not be the same as the Farm Board "stabilization", which ultimately resulted in depressing prices. Commodities purchased by the Farm Board hung over the market, ready to be sold at any time. Keeping the reserves now contemplated would be a settled national policy. These supplies would at no time be dumped on the market, and traders could act accordingly.

It is also clear that the drought will have far-reaching effects on supplies and prices of some commodities. But cutting down the supply of small grains and hay and inflicting severe damage to pastures, it has materially reduced the available supply of livestock feed. It will cause an abnormally rapid movement of livestock to market. The adjustment pro-

gram has already done much to reduce the number of hogs into line with what the market will take. But the number of cattle on farms and ranges has been exceptionally large. The Government is taking strong measures to prevent the liquidation of these cattle from having a devastating effect on market prices for beef.

But the consequences of the drought will not end there. High feed prices will work a hardship, temporarily at least, on feeders and dairymen who buy rather than produce the feed they use. The liquidation of livestock within the next few months will be followed by reduced supplies later on in 1935 and very likely by sharply increased prices.

Without such means of control as are afforded by the Agricultural Adjustment Act, there would be serious danger that the vicious cycle of short supply and high prices followed by increased production and ruinously low prices would be repeated within the next year or two--leaving the farmers in very much the same mess they were in at the beginning of 1933.

Cooperators Deserve Protection

And we should not too lightly dismiss the possibility that this very thing might happen. Without the possibility of assuring a differential between cooperating and non-cooperating farmers, so that the cooperators will not be penalized for their part in controlling production, it is doubtful whether the voluntary adjustment programs could continue. Indeed, in the light of past experience with attempts at production control through purely educational processes, it is highly probable that they would definitely break down.

If there were any assurance that agriculture would attain in the near future a satisfactory balance, and that this balance would maintain itself, then such a breakdown would not matter. What are the prospects that such a state of balance may be attained?

In the 5-year period, 1928-1932, the average crop acreage planted in the United States was approximately 370 million acres, of which 360 million were harvested. For 1929, the Bureau of the Census reported total crop land as 413 million acres. Of this amount 41 million acres were idle or fallow land; 13 million acres represented crop failure; and 359 acres represented crop land harvested.

Our normal requirements of acreage harvested for food for domestic consumption is about 280 million acres and of acreage in non-food crops, such as cotton and flaxseed, for domestic use is 25 to 30 million acres. These requirements are based on the assumption of a population of 125 million people, and the assumption that we will continue to import such products as bananas, sugar, coffee, tea, certain vegetable oils and oleaginous raw materials, and rubber.

This acreage for domestic food consumption will provide our population with supplies to meet a level of consumption equal either to that enjoyed in the relatively prosperous period from 1925 through 1929, or to

the adequate diet at moderate cost suggested by the Bureau of Home Economics. The acreage in non-food products would provide the same per capita supply for our population as was available in the 1924-1929 period.

Thus, with 260 million acres of crop land normally available for harvest, and only 305 to 310 million acres needed for domestic use, there is an excess of 50 to 55 million acres. The problem is, what to do with this acreage.

In 1925-1929, when our population was 5 percent smaller than at present, our average exports were equivalent to the product of 61 million acres. In 1932-33, however, our average exports were equivalent to the product of only 44 million acres and in 1933-34 that figure will be less than 35 million acres. These calculated export acreages include allowances for feed for work stock, and for seed.

Our wheat carryover, which in July of 1933 had reached record proportions of some 389 million bushels, has been reduced to 260 million bushels. As a result of this year's short crop, it may be further reduced to around 100 million bushels. This compares with a normal carryover in pre-depression years of from 90 to 125 million bushels. But if we are to maintain adequate reserve supplies, as has been suggested, a carryover considerably larger than 125 million bushels is probably desirable. Thus it appears that in 1935 a production of 700 to 800 million bushels might be in order. Continuing the present wheat adjustment contracts through next year will provide the mechanism for adjusting our production upward toward this level.

The cotton carryover, which was 13 million bales before the reduction production of 1933, will have been reduced to 10½ million bales by July. If this year's production is limited to that specified in the Bankhead Act, and consumption is at the usual figure of 14 million bales, the carryover will be reduced to 7 million bales, not too greatly in excess of the normal carryover of 4½ million to 5 million bales. The excess above the normal carryover would represent the product of several million acres.

Assuming average yields, it appears that our crop acreage over the next several years should be reduced by 15 or 20 million acres of average productivity. This will continue to be true until sufficient improvement in the export market is shown, or until our population increases by 5 to 10 percent.

Everyone who remembers the heart-breaking 15-year period of depression through which agriculture has just passed will agree that we must not let that experience recur. But unless foreign markets for our farm products are quickly--almost miraculously--opened, we appear to face the continued necessity of a reduction of 15 or 20 million acres of average land in crops.

Four Methods For Keeping Land Out of Production

There seem to be four possible methods of keeping this amount of land out of cultivation;

(1) Voluntary adjustment, with benefit payments to assure an advantage to the cooperators over the non-cooperators. This is the plan we are now following with wheat, tobacco, and corn and hogs.

(2) Voluntary adjustment, with disadvantages to those who refuse to cooperate. This is the plan now being followed with rice, through marketing agreements with the millers. Under this plan, the millers hold back part of the fixed minimum price for the farmer's rice unless he has agreed to participate in the acreage control program. A device similar in principle is contained in the Kerr Bill, which would tax the tobacco marketed by the non-cooperating growers. This plan, however, would be accompanied by continuance of benefit payments to the cooperators. The tax would operate to increase the differential between them and the non-cooperators.

(3) Government buying of sub-marginal land. But it would take a long time to acquire the enormous amount of such land required to affect commercial production adequately, and there would also be the problem of moving those people who wish to move to lands rich enough to maintain them in reasonable economic security.

(4) Compulsory control of production. This might be by license or by taxation. The Bankhead Act limiting ginnings of cotton uses the taxation principle and provides for assigning a quota to every producer of cotton. While many were dubious about the use of taxation in this way, demand for the bill from all parts of the South proved to be so strong that the plan is now being given a trial.

But there is no reason, in the rest of the country, to abandon the voluntary principle, implemented with the centralizing power of the Government.

The main thing is to devise a plan that will stand up despite the fluctuations in the prices of individual commodities and that will function in temporary periods of scarcity as well as in periods of chronic surpluses.

So, in devising the program to be offered farmers in this next phase, several important questions must be decided:

(1) Should the contract run for one year or for a longer period?

(2) Should only one contract be offered to an individual farmer in any particular region?

(3) Should the contract or contracts be administered and checked by a single county control association or joint compliance committee?

(4) What inducement must be offered to farmers to obtain the desired participation?

Many persons are urging that the adjustment program be placed on a farm basis rather than a commodity basis. It has been suggested that a simple but effective way of achieving a balanced agriculture would be to apply the processing-tax, benefit-payment system to the task of transferring land from cultivated crops into pasture and forage and woodland--to bring about the shift from an intensive type of farming to the extensive type so urgently needed.

If enough land were put into grass and forage crops, total crop production, and in turn livestock production, would be brought into line with available markets. There would still be the problem of adjustments between commodities. But as long as there is a system of free prices, sooner or later these adjustments would make themselves in response to price changes. Farmers would naturally devote their acres of cultivated land to the crops they found most profitable. Some special restrictions might have to be placed to prevent too great shifts into minor commodities.

A Simple Adjustment Contract Proposed

Such a plan might be placed on a 3-year basis. The receipts from processing taxes would be merged, and there would be worked out a schedule of benefit payments based on the productivity of the land that is shifted to pasture or other approved use. These payments would be continued over the entire 3-year period.

The farmer signing the contract would be free to use his pasture or forage crop land for commercial purposes if he chose.

Several important advantages for this idea are claimed:

First, it would have the merit of simplicity. It could be based on a simple contract, easy to understand. It would give the farmer a large measure of freedom in planning his individual farm operations.

Second, it would extend through a 3-year period regardless of fluctuations in the prices of individual commodities.

Third, it would be extremely valuable as a soil conservation measure, since land in grass is much less subject to erosion by wind or water than is cultivated land.

Fourth, it would avoid the unfortunate reactions of part of the public to programs of actual crop reduction, such as the emergency cotton plow-up of 1933.

Fifth, it would avoid giving the farmers a feeling of frustration at not being able to use all their acres for commercial production.

Sixth, it would be sufficiently flexible to meet any changes in the situation, such as increased export demand or decreased yields.

Seventh, it would probably result in some permanent and advantageous change in our farming practice, even if it were not repeated at the end of the 3-year period.

It may be that we are not ready just yet for this plan. The situation with respect to various commodities is not yet sufficiently clear to make it entirely feasible now. But the plan is worth discussing, and possibly we can make something like it the basis for a contract to be signed in 1935, to run through 1936, 1937, and 1938.

In the meantime we must be thinking about a composite contract which will meet the situation in 1935. This contract should be kept as simple as possible, and yet it should protect the various groups of producers from sudden expansion of their production and collapse of their prices.

Progress in perfecting the mechanisms of agricultural planning will logically follow the same line as progress in perfecting inventions like the automobile. Early automobile models were noisy and crude. Gradually they were evolved into the smooth, powerful, and luxurious cars in use today.

After all, keeping the production of our national farm plant in balance with effective demand should be a relatively simple task. If the farmers continue to work together in the future as they have this past year, they should enjoy continued improvement in their situation. Just now the havoc has been wrought by the drought. But Nature usually does her part in cooperating with man. What man needs to do is to keep on cooperating with his neighbor.